GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:739
ANSWERED ON:21.02.2003
FOREIGN EXCHANGE HOLDINGS
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a): whether the Reserve Bank of India has changed its policy of deployment of foreign exchange;

(b): if so, whether Reserve Bank of India has decided to holdmore of the foreign exchange in cash rather than in foreign exchange bonds;

(c) if so, the reasons therefor;

(d) whether this policy is likely to earn less interest in foreign currency than before; and

(e) if so, the details of the changes of present deployment policy of RBI with regard to foreign exchange holdings?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)

(a), (b) and (c): The Reserve Bank of India continues to be ledby objectives of safety, liquidity, and return in deployment of foreign exchange reserves. There has been no change either in the objectives set out for management of reserves or in the broad procedures followed by the Bank to achieve these objectives. Depending upon the conditions prevailing in the international financial markets, the Reserve Bank makes marginal changes in the currency/asset composition in the portfolio with a view to increasing the return and/or minimising the risk of losses.

(d) and (e): The interest rates on financial assets have been declining very steeply in the international markets during the last two years due to sluggish economic growth prospects in the major economies and hence any investment in the international markets is likely to fetch a lower rate of return currently than what could have earned two years back.